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CANADA AND THE SILVER QUESTION.

It is rather remarkable that the prolonged silver agitation in the United States has not provoked or been followed by a sympathetic movement in Canada. The striking similarity of conditions in the two countries would lead one to expect such a movement. Canada is an agricultural country, and the conditions of agriculture in Canada are in all respects similar to those in the United States. Canadian farmers have experienced the disheartening effects of the fall in agricultural prices. Farm property is heavily mortgaged, and has declined in value,—slightly in Ontario, but heavily in the maritime Provinces. From Manitoba and the North-west have come the familiar complaints of grinding railway monopoly, and Manitoba is just beginning to recover from the disastrous boom of the early eighties. Canada has borrowed largely, and the burden of the interest she must pay has been largely increased by the fall of prices; and the burden of taxation has been made heavier, for revenue is raised largely by an *ad valorem* duty on goods whose value has been steadily falling. There is less money per head in Canada than in the United States, and apparently not much more than a third of the proportion which the United States requires to transact her internal commerce. The commercial and financial conditions in the United States are sooner or later reproduced in Canada. A crisis there means a prolonged business depression here; and a revival of trade, prosperity in Canada. Even in purely financial affairs, where the difference between the two countries is greatest, the stability of the Canadian banking system is ultimately dependent on the gold reserve in the United States Treasury. Ideas which are prevalent in the United States, sooner or later are taken up in

Canada. In respect of financial legislation Canada is as free to adopt a silver standard as the United States. She has absolute control of her monetary system: the imperial government could interfere only by repealing the British North America act and reversing the colonial policy which has been in force since responsible government was granted. The absence of silver mines in Canada is not sufficient to account for the phenomenon; for, at the most, the silver mine owners were no more than an occasional cause of the agitation. Had the same elements of discontent been present in Canada, the agitation would have swept over the whole country, the small annual production of silver to the contrary notwithstanding.

Yet, with all this similarity of conditions and with all the reciprocal dependence and the intercourse between the countries, the election in 1896 in Canada was fought out on a mixed tariff and educational issue; and, though the opposing forces were even then in line across the border, there was no breath of a demand for a currency reform to remedy the long industrial and commercial depression. Great interest was taken in the Presidential campaign. The newspapers devoted a great deal of space to the subject; long speeches were reported in full; statistics were liberally quoted, and election forecasts diligently studied; and the crowds around the telegraph offices on the evening of the 5th of November, if not as large, were quite as much interested as those which awaited the returns of the Canadian elections on June 27. But neither in the editorial columns nor in the common talk of the street was there any sympathy expressed with the silver men, and the victory of Mr. McKinley was more generally welcomed than the success of Mr. Laurier. It was not a question of abstract politics in which they were interested. The prosperity of Canada was felt to be bound up with the prosperity of the United States. The success of the silver men would have been, so they

thought, as ruinous to Canada as it would have been to the United States.

In the absence of a silver agitation it is not hard to understand why there was so general a desire to see a victory for the gold standard. The Canadian public believed, with an intensity of conviction that was not based on understanding, that the election of Mr. Bryan meant a fifty-cent dollar; and they had great interests at stake, depending on the maintenance of the standard. In 1895 there were held in Canada, from United States life assurance companies, 50,229 policies of an amount of \$96,731,278, or an average of \$1,862 per policy; and nearly 100 millions of Canadian property was insured in United States fire insurance companies. These policy-holders and all the agents of the companies were vitally interested in the maintenance of the standard; and, though the interests of the policy-holders were secured by the declaration of the Minister of Justice that all insurance companies doing business in Canada must pay all claims in Canadian currency, there was little diminution in the desire that Mr. McKinley should be elected. One looked in vain for even an occasional expression of the protectionist fallacy that one country's loss is another's gain. The sentiment of the nation was economically sound. Business men knew that Canada did not prosper while the United States suffered; and the banking interests, by their traditions as well as on account of their investments in United States financial centres, went strongly in favor of the gold standard.

The absence of a silver movement in Canada is a result partly of agricultural and political, but mainly of financial causes.

In the first place, there is less reason for agricultural discontent in Canada than in any other gold standard country. Manitoba and the North-west have been practically opened up and settled since the fall in prices began;

and, consequently, the high price of wheat did not promote a rush to those regions. In 1871, when the price of wheat in New York was \$1.31, Manitoba had just entered Confederation; and her population of 18,995 was largely made up of Indians, half-breeds, and fur-traders. In 1881, with wheat at \$1.11 a bushel, her population was 62,260. In 1891, with wheat at 93 cents, the population was 152,506, and mainly agricultural. The improvement in the means of communication, which has opened up new sources of supply and for the first time brought the silver standard countries into effective competition, has been the making, not the ruin, of agriculture in Western Canada. The Canadian farmer in the Far West has produced under the most favorable conditions, and not from the margin of cultivation. Again, the late development of the West has prevented a loud outcry against the increasing burden of mortgages. The farms have been mortgaged since the fall in prices began; and the fall of prices since 1881 has not been great enough, in the favorable conditions in which the Canadian Western farmer is placed for competition, to make the growing burden of interest an intolerable strain. The farmer in Ontario and in the maritime Provinces has suffered more; but there the interests are not so predominately agricultural, and a large part of the money loaned on mortgage in the West has been collected in the East. A large proportion of the indebtedness has undoubtedly come from abroad, and an increasingly large quantity of goods must be sent to pay the annual interest; but Canada has been till recently a borrowing nation, and the burden of the interest which the industry of the country has to pay has been concealed or disguised by renewed loans.

There has been, it is true, a large measure of agricultural discontent in Canada; but the remedy has been persistently sought in a reform of the tariff, and not in a reform of the currency. The majority cannot pin their

faith to more than one panacea at a time. The conditions of hard times may be complex, but the effect is homogeneous; and it is natural to seek the remedy in a single direction. Both in Canada and in the United States the remedy is sought in legislation; but in the United States there is a powerful tradition in favor of manipulation of the currency, while in Canada there is no such tradition. The Western farmer in the United States in 1896 demanded free silver: the farmer in Canada demanded freer trade. It is not the least merit of the late Conservative government in Canada that for eighteen years it managed to keep one not vitally important issue before the public mind as the possible remedy. The Conservative, while denying that the country was not prospering, demanded more protection: the Liberal denounced the iniquitous national policy as the source of all evil. The permanently discontented found their way to the ranks of the opposition, and for eighteen years the tariff policy has acted as a conductor. No opportunity was afforded the country of testing the soundness of the Liberal policy; and it remained an untried remedy, a possible panacea. Had a free trade government obtained the reins of power during the long period of depression, it is possible that no more in free trade than in protection would the remedy for hard times have been discovered. But the Liberal party were kept in opposition, and the country had no opportunity of testing their remedies. The election in 1896 was fought with the tariff as the underlying issue; and agricultural discontent found expression in turning out a protectionist government, not in demanding a change of the standard. Should the present Laurier government be as unlucky as the Mackenzie government in the prevalence of depression during its period of office, it is possible that the eyes of many will be opened to the fact that manipulation of the tariff schedules is not the high-road to prosperity. Then they will seek another panacea; and

the year 1900, when the Bank Charter Act comes up for revision, may be marked by an agitation for soft money.

Even under those conditions it is possible that some other issue will divert the attention of the discontented from the question of the standard. New and unforeseen issues are within the range of possibility. The Dominion House has not only a somewhat wider range of function than Congress,* but provincial issues may be transferred, as the Manitoba school question was, to the arena of federal politics; and such issues may be important enough to engross all the political energy of the voters of the Dominion.

The main reason why Canada has hitherto escaped is to be found in the almost perfect adaptation of her banking system to her needs, or, more accurately, in the adaptation of the issue of bank-notes to her needs. The more purely banking part of the system has an excellence which is equalled in many other countries, and is perhaps not as good as the banking departments of the Scottish system; but in her note issues, and in the aid which the banking departments, so to speak, give to the issue departments, there is a perfection of adjustment which cannot be found elsewhere. It may be doubted whether the system could be adopted elsewhere, and it is possible that, as the country develops industrially and commercially, the system may be found wanting; but at present no system could be devised which could more fully meet the requirements of a new country such as Canada. Of the purely banking department there is no need to speak. We are concerned only to show how the issues have been so regulated as to

* Cf. Bryce, *American Commonwealth*, vol. i., Appendix, p. 685. "The distribution of matters within the competence of the Dominion Parliament and of the Provincial Legislature bears a general resemblance to that existing in the United States; but there is this remarkable distinction,—that, whereas, in the United States, Congress has only the power actually granted to it, the Dominion Parliament has a general power of legislation, restricted only by the grant of certain specific and exclusive powers to the Provincial Legislatures (§§ 91–95)."

prevent the rise of that kind of discontent which gave rise to the silver agitation.

Of the two essentials in a note issue — security and elasticity — the latter is perhaps of the greater importance when the banks must play a large part in the development of the resources of the country. Legislation dealing with banks has generally been enacted on the assumption that there was almost an incompatibility between the two essentials. Legislators have generally been impressed most strongly with the idea of their duty of safeguarding the public interests, and the public seemed to need security against that elasticity or fluctuations in the issues in which lay the banker's profit. The banking history of Canada is one long proof that there is no such incompatibility, and that stability and elasticity may be both secured; for by a series of happy compromises the maximum of stability has been obtained without in the least impairing the elasticity of the issues. The need of a new country is elasticity, not to facilitate the management of the reserve in the time of a commercial crisis, but for the ordinary every-day work of developing the country. The interest of every new country, not merely of the banks, but of the people, is in having at all times plenty of money. The danger is that this interest will lead the country to demand soft money; and the banking legislation of the United States was designed to prevent the possibility of "wild-cat" banking. But in Canadian history there have been no soft money episodes. There have been times in 1838 and in 1880 when there was a dangerous demand for cheaper money, but the danger has been averted. This immunity is, in the first place, due to the constant supervision which the Colonial Office exercised over the banking legislation of the colonies at the time when the character of the system was being formed. The home authorities were generally inclined to go too far in

their supervision, and repeatedly tried to foist the principles of the Bank Charter Act of 1844 on a country for which these were peculiarly ill suited. But the resistance of the bankers and of public sentiment was strong enough to offer an effective resistance to proposals which would have deprived the banks of half their efficiency in a new country; while the pressure of the home authorities was persistent enough to prevent security from being altogether sacrificed to elasticity. It was due to the supervision of the Colonial Office that the bank suspension in Canada in 1838 did not leave behind it an evil tradition. The imperial government would indeed, if it had been able, have prohibited suspension until a bank was utterly bankrupt, and thus have forced the banks to abandon their customers, and precipitated the total bankruptcy of the colonies. In spite of Lord Sydenham the banks got their own way, and suspended; but the imperial government was able to attach such conditions to suspension that the period was not unduly profitable. The bankers were taught then that an over-issue of irredeemable paper was not the best method of securing dividends. Bank dividends generally fell instead of rising, in consequence of suspension; and the banks were never afterwards inclined to look back to this time as a golden age of high earnings.

Since then the banks have been called at various times to resist attempts to deprive the issues of their elasticity, made by the provincial and federal governments with the specious profession of further safeguarding the interests of the people; but they have always been able to defeat the proposals. The general form of these proposals has been to introduce a system of special security, and the ill-concealed motive has frequently been to raise the price of government securities. The bankers were able to point to the actual security under the system as they practised it, and could say, without fear of contradiction, that the public interests had not suffered; that, under the con-

ditions of Canadian business, public interest would suffer if special security, whether of bonds or specie, were required, because a secured issue meant a diminution of the accommodation that could be offered to customers; and that the government was placing its own financial necessities above the convenience of the people.

The consequence of these recurring attempts has been that the bankers themselves sought to remedy any deficiencies in the system, and to suggest means of rendering assurance doubly sure. They suggested greater publicity of accounts. They suggested the Bank Circulation Redemption Fund, and have always been ready to discuss proposals, not merely from their own point of view, but also from the public point of view. Thus there grew up a disposition in the country to look to the banks themselves for suggestions for reform. Banking legislation in Canada has absolutely ceased to be, if indeed it ever was, subordinated to the exigencies of political parties, and is regarded as entirely a matter for experts. The money question is not in Canadian politics. Seeing the willingness of the banks to adopt necessary reforms, and aware in an obscure fashion that elasticity was at least as important as security, the public has come willingly to accept the decisions of the experts. The banks are not regarded with any suspicion; and there has been no cry for cheaper money, because these experts, in providing for the security of the issues, have not sacrificed their elasticity.

So long as this opinion prevails, there is not much chance for a violent agitation for cheap money. The needs of the community are well supplied by the banks, there is no popular suspicion of the banks, tradition is against interference with the currency; and so, although the Canadian government is perfectly competent to adopt free silver or free paper, there is not much likelihood that it will be asked to. Moreover, although the imperial government no longer either claims or exercises any supervi-

sion, although, indeed, it has expressly renounced all claim to interfere in any way with the currency of the Dominion, there has grown up, since responsible government was granted, a very efficient substitute, in the desire to follow English precedent. English precedent and example count for much in Canada, and this reverence was one of the minor reasons for the strength of the sentiment in favor of the gold standard. The extravagant denunciation by the silver men of the English money power only tended to strengthen the Canadian attachment to the English standard. That it is possible to be English, and yet not to approve heartily of any and every thing done in England or by England, it seems difficult for many Canadians to conceive; and any one who offers to tamper with the English gold standard seems guilty of something like high treason. The writer had occasion some years since to say some things in favor of bimetallism in a public address, and he was sternly informed by the local government organ that he was not paid by the government to teach anti-English and unpatriotic ideas.

The note issues, though no special reserve is required, are regulated and restricted in the interests of the people. There is, on the average, nearly ten dollars behind every dollar issued; and in 1895 more than twenty millions was held in specie and Dominion notes to secure the immediate convertibility of a circulation of little more than thirty millions. The regulations, however, are of such a nature as not to impair that elasticity which is essential in a country where business is subject to periodical fluctuations. The annual closing of navigation, and the relative importance which the seasonal industries of agriculture and lumbering have in the total of Canadian internal and external trade, render it extremely desirable that the circulation should be elastic enough to fluctuate with the changes in the volume of business. A provision requiring either a fixed or a proportionate reserve, or a

bond-secured circulation, would result in alternate scarcity and inflation, with results fatal to the steady development of the country. More money is required at some seasons of the year than at others, and the banks are permitted to meet the demand as it arises. There is no danger of permanent inflation. Owing to the competition of the banks and the development of branch banking, excessive issues cannot remain out. The extra issues in the fall of the year are returned to the banks as the volume of business decreases and fewer customers ask for accommodation. The periodical fluctuations in the Canadian issues supply a most perfect refutation, if one were needed, of the principles of the Currency School.

When business increases, the volume of the currency expands with it; and there is never a currency famine in the country. When business is brisk, accommodation can be obtained as easily and as cheaply as during the dull season; and the bank rate remains steady throughout the year. Owing to the competition of the banks and the large number of branches, the issues in excess, when the volume of business contracts, are automatically returned for redemption; and there is at all times just sufficient money to transact the business of the community. The annual average circulation per capita in Canada is small; but, owing to the regular expansion and contraction, the needs of the country are always supplied. Though a maximum limit is placed to the issues of the banks,—the amount of their unimpaired capital,—the limit has never been reached. The banks are not able to put out or keep out the whole amount of the notes they are entitled to issue. A few banks issue almost up to the maximum, but the proportion of the total bank circulation to the capital has seldom been much in excess of fifty per cent. There is thus room for a very large increase in the business of the country; and, before the maximum is reached, banking will be so profitable that the banking

capital of the country in one way or another will be largely augmented. The temporary needs are well supplied, and for a long time the banks could meet any permanent increase without making any new arrangements.

The branch bank system, which enables the banks to expand and contract their issues according to the needs of the business of the country, also has the effect of preventing any local currency famine. The banks are as able to grant accommodation in remote country districts as in the commercial centres. They are not organized as agricultural banks, yet they serve all the useful purposes of agricultural banks. The farmer in the Far West and the lumber operator in the Maritime Provinces pay little more for accommodation than the merchant in Montreal or Toronto. The rate of discount varies from six to eight per cent., as low a rate as can be obtained in America, except in a few of the Eastern financial centres of the United States. The Canadian banks are enabled thus to equalize the rates by means of the branch bank system which they have adopted. There are more than five hundred branches of the thirty-eight chartered banks; and through these branches the banks are able to collect the available capital of the country, and to lend it where it is most needed. It is not the farmer who has any ground for complaint. He obtains accommodation for seven or eight per cent., while the Western farmer in the United States pays twelve or fifteen. If any one has reason to complain, it is the Eastern borrower, who is thus deprived of whatever advantage he might derive from a low rate. The banks draw off the surplus capital of the East, to distribute it evenly over the country, with the consequence that the rate is higher where capital is accumulating than it would otherwise be. But the class which suffers is not likely to be carried away by arguments for soft money; while the farmer, who might yield to the

temptation, is benefited by the system. The system is one adapted to assist in developing a new country. In the United States a bank would not be organized till the business of the district was sufficient to warrant it, and even then there would be no material increase of capital available. In Canada the new district can draw, according to the discretion of the local and the general manager, on the capital collected in more settled parts of the country; and, so long as there are districts requiring development, so long the system will be the one best suited to the needs of the country. At present it is admirably suited for the development of the country, and the perfection of its adaptation has hindered the rise of that discontent which found expression in the United States in a demand for free silver.

Had Canadian banks been restricted by legislation to a system which would not permit them to avert local and temporary currency famines, the assistance they have rendered to the farmer and to the development of the country could not have been given. But in the absence of government bonds the branch system has been encouraged; and the local banks, which reproduce the limitations without the safety of the national banks of the United States, are not increasing in number. Since 1885 no new bank has been chartered, while the number of branches has nearly doubled. This means not only an increasing safety to the community,—for the dangers of the discretionary system are in the existence of small local banks with local management and local risks,—but also an increasing adaptation of the system to the needs of the country. The presence in remote districts of agents of the large banks allays any suspicion of the distant money power, and creates a general impression that the banks are the servants of the community. The wider area of their operations on account of the existence of branches makes the banks pursue a larger policy. They

must protect and accommodate their country customers as well as their city customers; and they are more ready to do so, because these country customers are a main source of their profit by rendering it possible to put out and to keep out a larger proportion of notes. There is, therefore, a solidarity of feeling throughout the country; and the remote districts have never had any cause for regarding the money men of the financial centres as their natural enemies.

In this absence of mutual suspicion and distrust, and in the complete adaptation of the banking system, which is the main cause of the feeling of solidarity, we find the fullest explanation why there has been no silver question in Canada.

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